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EFFECTIVE OVERSIGHT: THE  
CHALLENGE TO MODERN GOVERNMENTS

ADDRESS OF  
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BEFORE

THE FIRST SEMINAR OF SENIOR  
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I am pleased to be with you today and to have the opportunity to address this seminar of senior governmental oversight officials. I bring you greetings from the Comptroller General of the United States, Mr. Elmer Staats, who--because of other commitments--was unable to accept this invitation himself. Mr. Staats commends the officials of this great country who are taking a leadership role in government oversight.

You are to be commended for your efforts to create a national consciousness of the need for control and oversight of public income and expenditures. In the fast-moving world of today--with the future expected to be even more complex--the challenge to modern governments to effectively oversee the vast responsibility of public income and expenditure is enormous. This is something that has concerned the United States General Accounting Office, which the Comptroller General heads, since its formation in 1921.

I note that a primary focus of this seminar is financial oversight. Before addressing our Office's work in this, as well as some other areas, I would like to present some

brief background and a bit of history that will put in better perspective our organization and the environment in which the General Accounting Office staff work.

Basic to an understanding of the role of the Comptroller General of the United States is to first recognize that ours is a government with constitutional separation of powers among the legislative, judicial, and executive branches. Simply stated, the legislative branch--headed by our House of Representatives and the Senate of the Congress--formulates the laws of our land. The executive branch--headed by the President of the United States--administers the laws. The judicial branch--headed by the Chief Justice of the United States--interprets the constitutionality of laws passed by the Congress and tries cases where Federal laws are involved.

The General Accounting Office is an independent agency within the legislative branch of the Government. It plays an important part in the oversight by the legislature of the manner in which the chief executive, our President, carries out his responsibilities under the Constitution.

We are described as being "independent" because of several attributes which were assigned to the position of Comptroller General. Although he is appointed by the President, and

confirmed by the Senate, he cannot be removed by the President. He can be removed only by the Congress, and then only for cause or by impeachment--an attribute which he shares in common with appointees to our judiciary. In its nearly 60 years of history, no Comptroller General has been so removed nor have any efforts ever been attempted to do so. While the Comptroller General reports to and is accountable to the Congress, he has been given wide discretion to audit and evaluate virtually all programs of the executive branch and, with certain limitation, the operations of the Congress and the judiciary.

In establishing the position of Comptroller General in 1921, the Congress attempted to create the General Accounting Office as a nonpolitical and nonpartisan body. With the exception of the Deputy Comptroller General, who also is appointed by the President and confirmed by the Senate, the Comptroller General appoints all other staff on a career merit basis.

The Comptroller General has the longest term appointment in our government--15 years--and cannot be reappointed. And he retires on full salary. These provisions were intended to create a setting in which the Comptroller General would have no motivation and, in the eyes of all concerned, would

have no appearance of a motivation, to use his office in any manner which could be construed as political in character. I emphasize this point because, in the final analysis--except for illegal expenditures--the Comptroller General has virtually no powers to direct that all recommended actions be taken as a result of his audits. He can develop the facts, he can make his findings available to the Congress and the public, and he can hope to persuade. But the Comptroller General's effectiveness rests heavily upon his reputation for fairness, his objectivity, his credibility, and his persuasiveness. This reputation for objectivity is perhaps the greatest reason our audits are respected and have led to major changes in financial or program management and even overall program direction.

Let me now turn to a description of how our Office has found the need to evolve from one with a rather limited focus of our duties to one with a very broad perspective of assisting the Congress in its oversight responsibilities.

The principal functions vested in the General Accounting Office by its enabling legislation--the 1921 Budget and Accounting Act--included:

- investigating all matters relating to the receipt, disbursement, and application of public funds;

- making legislative recommendations for greater economy and efficiency in public expenditures;
- making investigations and reports ordered by Congress;
- rendering advance decisions on the legality of proposed expenditures;
- settling and adjusting all claims and demands by or against the Government; and,
- prescribing accounting forms, systems, and procedures.

The development of the General Accounting Office in its formative years was in many ways consistent with the attitudes of the times. The improvement of government was very nearly synonymous with more effective control to assure that what was done was in exact accordance with the intent of the legislature. This meant detailed laws and items in appropriation bills and checking every financial transaction to the last penny and the last letter of the law. It meant too that like situations and questions be handled in similar ways wherever they might arise; and this required a single central authority to interpret the laws and prescribe the rules--that is, standardization and centralization.

Economy and efficiency had been the watchwords of the movement which gave birth to the organization, and they

were repeatedly invoked over the years by the Comptrollers General and their supporters in Congress. The early focus of the General Accounting Office was on legal compliance, not on the economy, efficiency or effectiveness of governmental operations. And the stance of the Office--like that of other auditing and investigative organizations--tilted heavily to the negative. Its search was for mistakes, misinterpretations, and misdeeds. As you might imagine, this attitude did little to foster a cooperative atmosphere between the executive and legislative branches to improve federal financial management.

A significant development in the Federal Government's financial system was marked when the Government Corporation Control Act was signed in 1945. By 1945, principally due to World War II, the number of corporations wholly owned or with mixed ownership, had grown to more than 100. The Act provided that all financial statements of all Government corporations should be audited by the General Accounting Office. However--and this was a major change in how we conducted our examinations--instead of having the accounts and vouchers sent to the General Accounting Office building for central audit, the staff were sent to the locations at which the records were kept for a full-blown "Balance Sheet" audit. And, instead of limiting their concern to

a legalistic view of the vouchers and contracts, the staff began to report on needed management improvements and to examine how programs were implemented.

About the same time, another major change in General Accounting Office responsibilities was added by the Legislative Reorganization Act of 1946, which authorized the Comptroller General to analyze each agency's expenditures, and provide sufficient information to enable Congress to determine whether public funds had been economically and efficiently administered.

Unquestionably the most sweeping change to impact on our Office was the Budget and Accounting Procedures Act of 1950. When President Truman signed it on September 12, 1950, he pronounced it: ". . .the most important legislation enacted by the Congress in the budget and accounting field since the Budget and Accounting Act, 1921, was passed almost thirty years ago."

The overall purpose of this legislation was to make Federal program administrators--and not some other party like the General Accounting Office--take on the responsibility for seeing that budget and accounting systems were adequate to control public monies. No longer would the General Accounting Office be checking every voucher but was charged with



prescribing the accounting principles and standards for the agency's systems. The Comptroller General would then, in determining the auditing procedures and the extent of voucher-checking, "give due regard to generally accepted principles of auditing, including consideration of the effectiveness of accounting organizations and systems, internal audit and control. . ."

The role of the General Accounting Office was changed because evidence was mounting that--even though expenditures may well have been legal--agencies in the executive branch were not administering the public monies in an efficient and economical manner. Thus, the General Accounting Office was now charged with this broader audit focus for virtually all Government activities; corporations as well as agencies.

These three laws--passed in 1945, 1946, and 1950--had a significant impact on the types of people that the General Accounting Office employed. Previously--because of its legalistic approach--most employees had legal backgrounds. Now, however, a different kind of staff was needed. To meet this challenge, the Office sought out and hired a large number of skilled and experienced people from the private accounting firms; most were certified public accountants. As our mission changed, so did the type of people we needed to have.

Over the next decade or so, less and less effort was directed to the centralized checking of financial transactions until it virtually vanished from the scene. More and more reliance was placed upon the Federal agencies in developing and operating their own accounting systems, including the internal auditing of transactions. The total staff of the General Accounting Office declined, but the professional staff of accountants steadily rose until they comprised a majority of the total staff.

There were, however, significant shifts in emphasis in the accounting and auditing work. More attention was given to developing and prescribing standards for agency accounting systems and reviewing those in place and approving or disapproving them.

The term "comprehensive auditing" had been introduced into the General Accounting Office after World War II to distinguish the kinds of general, on-site, auditing from the older voucher-checking conducted in its central office. But, in fact, few audits met the dictionary definition of "comprehensive", that is, "covering completely or broadly; inclusive." Over time the "comprehensive audits" became increasingly pinpointed on individual problem areas with reports designed to correct some specific irregularity,

extravagance, or waste in expenditures. During these years our audits focused increasingly on efficiency and economy of agency operations with declining emphasis upon reports strictly focused on financial accuracy and adequacy of accounts and accounting techniques. They dealt more with: was there really a need for the things and services purchased; were the prices reasonable; were the resources used effectively--i.e., the effectiveness of management in general.

During this period, audits in only a few cases extended to an assessment of program results--a portent of things to come. Thus, even as the dominance of accountants in the GAO staff grew, the nature of the work grew further and further outside the accustomed duties of that profession.

To appreciate the next major change in GAO requires a little political backdrop. Times were changing; the pace of life was accelerating. The years between the mid-sixties and the mid-seventies will no doubt be remembered as a period of great turbulence in the United States. At its beginning--with a strong push from President Lyndon Johnson's Great Society--was the passage of much new legislation in fields of education, health, welfare, and the environment, civil rights, housing, transportation, urban development, and others. At the same time there was a growing involvement in an increasingly unpopular war.

Under Republican President Richard M. Nixon, conflicts with Congress--controlled by the Democrats throughout those years--grew more and more bitter, with regard both to Vietnam and to his efforts to reduce or abandon certain domestic programs and their attendant expenditures. Even before the culminating confrontation about Watergate, Congress was taking steps to gain--or regain--authority and initiative over the government's activities.

The various inquiries that preceded and followed President Nixon's resignation made it clear that Congress had not been very effective in its oversight role. So it took steps to strengthen its capacity in this regard. One of these steps was to evidence its growing concern about the effectiveness of the various programs it had established and funded not only in terms of managerial efficiency, but also of results measured against congressional intent. This was a response to widespread criticisms that many of the new undertakings of President Johnson were not achieving their goals. Congressional leaders and many of the legislative committees were soon requiring program evaluation as a part of some substantive legislation. Further, it was directing the General Accounting Office to get into the act on behalf of Congress. And, new legislation impacting on the Office was enacted.

The 1970 Legislative Reorganization Act was designed to provide the Congress with better and more comprehensive information on which to base its decisionmaking processes. The Act required the Treasury Department and the Office of Management and Budget (which is part of the Executive Office of the President) to cooperate with the General Accounting Office in developing a standardized information and data processing system for budgetary and fiscal data. Up to this time Congress was at the mercy of the executive branch in getting information and it was usually not consistent and did not meet congressional needs. And the Congress--to make sure its own needs were considered in developing the system--wrote in a role for the Comptroller General. This law also emphasized the desires of the Congress for the General Accounting Office to expand its efforts in the area of program evaluation. Finally, the Act required department and agency heads to advise the Senate and House Committees on Government Operations and Appropriations of the actions taken on recommendations made in General Accounting Office reports. This last point is important because it means that, as Congress considers requests for appropriations, it can pursue with

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these officials any GAO recommendations which have not been implemented. You might think of it as adding some teeth to our bite.

The Congressional Budget and Impoundment Control Act of 1974 further expanded GAO's role. The 1974 Act represents the final legislative step to date in the General Accounting Office's move from a purely financial auditing organization (voucher-checking) to one also concerned with the effectiveness of programs to receive as well as disburse public funds. The law states:

"The Comptroller General shall review and analyze the results of Government programs and activities carried on under existing law, \*\*\* when ordered by either House of Congress, or upon his own initiative, or when requested by any committee of the House of Representatives or the Senate, \*\*\*"

To meet the challenge of this latest responsibility, GAO has recruited staff with backgrounds other than accounting--statistics, economics, operations research, medicine, computers, etc. In fact, about half of our 4,200 professional staff have backgrounds in fields other than accounting. Also, consultants and experts and other highly skilled specialists are employed as specific tasks and circumstances warrant.

After hearing about the General Accounting Office's increasingly varied responsibilities, you may wonder how much truly financial auditing we now do. In fact, we are still very much involved in many aspects of financial management. Our work in this area ranges from audits of financial statements to promulgation of accounting standards and review and approval of Federal agency accounting systems. In fact, during 1978 the General Accounting Office issued 40 reports on Government corporations and agency financial statements. And, during this year we will evaluate the designs of approximately 50 accounting systems as well as provide consultative service on other systems which are under development or are being redesigned.

The criteria for developing accounting systems are expressed in the General Accounting Office Policy and Procedures Manual for Guidance of Federal Agencies. To encourage wider use of the material expressed in this manual we have also published it in pamphlet form. We find this a good way to disseminate information.

We recently published, for example, a booklet entitled "Managers - Your Accounting System Can Do a Lot for You " It is designed to show managers how their accounting systems can help them:

- plan and control agency operations,
- decide the best ways to use resources to achieve goals,
- keep within appropriations and other legal requirements,
- safeguard agency resources, and
- evaluate accomplishments.

Some of our other publications deal with topics of interest to State and local government financial managers. In 1972, we published "Standards for Audit of Governmental Organizations, Programs, Activities and Functions," which contained auditing standards which could be applied to all levels of government in the United States.

Besides these roles, our Office has issued to the Congress during the past year a large number of reports on financial matters. A few illustrations:

- New methods needed for checking payments made by computers
- The Federal Government's bill paying performance is good but should be better



- The Department of Defense's continued failure to charge for using Government-owned plant and equipment for Foreign Military Sales costs millions
- Import duties and taxes: improved collection, accounting, and cost management needed

The General Accounting Office also publishes guidelines and case studies on specific topics. For example, all of you are aware of the automated data processing explosion in the past decade. Our Office--as well as other public and private sector auditing groups--has been faced with the need to be able to audit computer systems; yet, many staff have little, if any, formal training in this area. While we provide some training for our auditors and have hired many computer specialists, the sphere of those needing exposure to this area is quite broad. Thus we published an audit guideline for assessing controls of a computer system.

There is a constant need to keep our professional staff abreast of the latest state of the art--whether in computers or in energy issues. That is the challenge.

One final note on financial oversight. Something which has always been a concern of General Accounting Office auditors, but which has recently received considerable attention in Congress and the executive branch, is fraud

and waste in government programs. A report which the General Accounting Office issued last Fall (Federal Agencies Can and Should Do More To Combat Fraud In Government Programs, GGD-78-62) indicated that the Government's financial assistance programs are vulnerable targets of fraud and related white-collar crimes. In fact, it is possible that the total loss to the taxpayer could be as high as \$25 billion per year. Given the magnitude of the problem, no one person or organization could combat it. The "war on fraud," as it has been dubbed, is being fought on many fronts.

Late in 1978 the Congress enacted and President Carter signed a law which established an Office of Inspector General in 12 Federal agencies. The Inspectors General and their staffs have a great deal of autonomy within their agencies to pursue instances of fraud, mismanagement, error and theft. In addition, they are charged with devising ways to prevent such crimes.

The General Accounting Office has stepped up its own efforts to combat fraud by establishing a Special Task Force for the Prevention of Fraud. We have allocated substantial staff resources over the next two fiscal years to carry out the task force work. The major responsibilities of this group are to:

--evaluate the adequacy of the management control systems in Federal agencies that are necessary for the prevention of fraud, and

--assess the adequacy of the follow-up corrective actions taken on reports of auditors and investigators.

One effort of the task force has been the establishment of a telephone "hotline," a toll-free number available to anyone. We have received literally thousands of calls since we implemented the "hotline" in January 1979. Of the approximately 5,000 allegations which we have been able to write up and code for computer analysis, about 60 percent appear to warrant investigation or audit. We categorized about 39 percent as mismanagement and 61 percent as intentional wrongdoing. After determining whether an allegation truly represents wrongdoing, the General Accounting Office Task Force turns over the information to the Justice Department or the appropriate agency Inspector General.

While the efforts of the General Accounting Office, the Inspectors General and other executive agency audit groups will help decrease fraud and waste, in my opinion, the best Inspector General system, the best audit, the best investigating system that can be devised will be of little use if

management does not become an active partner in the process or fails to use the necessary controls.

Thus, prevention is our Office's top priority in the fight against fraud. By taking the leader at the national level we hope to prevent fraud, abuse, and waste from occurring in the first place; it's better than coming along later to clean up the mistakes. Our work concentrates on identifying and getting agencies to correct internal control weaknesses that permit fraud to occur. When systems have been properly developed and are functioning as planned, the possibility for fraud, theft, or error is greatly diminished. Where the systems do not exist, or are not being used properly, the opportunities to defraud the Government and the possibilities of error increase dramatically.

I could spend more time on the strictly financial aspects of our work, but I think it important to discuss more about our overall role and some of the other things we do.

As was obvious from the discussion of the evolution of our Office's history, our work is largely concerned with assessing the economy and efficiency with which programs are managed or the effectiveness of various programs and activities. Managers generally need feedback on whether they are effective in achieving established goals and whether they are efficient and economical in using resources. Unfortunately, financial information by itself does not meet

the government manager's needs completely. True, the government manager needs to know what costs are and whether they have stayed within the budget. Yet knowing this, the manager still will be missing a significant part of the information needed if it is still unclear whether the program or activity is achieving the non-monetary goals for which management is responsible. If he is charged with housing the poor, financial information showing what was spent and that costs are low will only be of limited use; the program manager also needs to know what impact these expenditures have had in providing the needed housing. It isn't worth much if all of the costs are properly accounted for, and within approved limits, but nothing has changed to improve the housing situation.

We believe that the execution of an oversight role of any program must look beyond the accounting records. And oversight committees of the Congress of the United States increasingly ask the General Accounting Office for such evaluations. Some examples from reports issued by our Office in 1978 follow:

- The Summer Feeding Program for Children: Reforms Begun, Many More Urgently Needed.
- Making Future Transportation Decisions: Intermodal Planning Needed.
- Greater Coordination and a More Effective Policy Needed for International Telecommunications Facilities.

- Reevaluation Needed of Educational Assistance for Institutionalized Neglected or Delinquent Children.
- Questionable Need for Some Department of Labor Training Programs.
- Deep Ocean Mining: Actions Needed to Make it Happen.
- Home Health: The Need for a National Policy to Better Provide for the Elderly.

In increasing its efforts in the program evaluation area, the General Accounting Office has confronted several hurdles. A basic one is the lack of a clear definition of program evaluation. Some groups prefer terms such as: effectiveness auditing; value for money; program results; cost effectiveness studies; etc. And each has its own small nuances. Within the General Accounting Office we define program evaluation as studies of programs which are effectiveness-oriented. They address and are mainly concerned with outcomes--what has been, is being, or should be accomplished through existing Federal programs and activities in relation to objectives established by Congress through statute or by agencies through implementing regulations or procedures. In such evaluations, the staff seeks to demonstrate that a program either is or is not accomplishing what it's supposed to be accomplishing. Obviously any evaluation of existing programs has (or should have) future policy implications--but

the main objective of program evaluation studies is to examine the operation and outcomes of ongoing programs.

But having a working definition of program evaluation does not alleviate problems associated with performing it.

Evaluators often encounter difficulties in attempting to identify criteria for evaluation. This, in part, results from a lack of agreement on program objectives and on the types of information needed to verify program performance. Different committees of the Congress, agency officials, State and local officials, program personnel, interest groups, etc., may have different beliefs about what a program is and should be doing, and what data is sufficient for proving program "success." Evaluators are faced with a dilemma when

- legislative intent and stated program goals are vague, appear to conflict with each other, appear to be "symbolic" rather than real, or have not been translated into operational terms by the agency; and

--there appears to be disagreement among the Members of Congress, congressional committees, executive agency officials, and/or State and local officials over what the program is intended to accomplish and what indicators should be used to measure program performance and program "problems."

Without a clear definition of the objectives of a program, oversight can become an argument rather than a meaningful look at what has happened. It is difficult to obtain consensus on many issues in our Congress but some of the forward-looking legislators are challenging members to spell out program objectives. There's a saying that: "If you don't know where you're going, any road will get you there." This has application for programs which do not tell the manager what he is expected to accomplish. When a program manager knows the purpose to be served then--and only then--can he begin to collect information to help him measure progress.

Finally, if the program manager is fortunate enough to have criteria on which to make a program assessment and obtains meaningful data to measure results, there is the final problem of having no assurance that anyone will act upon the results of an evaluation. In fact, those running a program naturally have a vested interest in its operation and are



often reluctant to admit that it might not be operating at an optimum level or accomplishing the goals it was designed to achieve. The only way to assure that program managers will make appropriate changes based on results of evaluations is to have an active oversight mechanism in place to hold the responsible parties accountable.

While the preceding discussion on the problems of program evaluation may seem discouraging, I prefer to regard it as a challenge to us and to other governments. Progress has been good despite the problems I've laid out.

There is a growing sense in our nation--and I believe in others--that government must be accountable to the people; we can only do this if our oversight mechanisms can report to the people that programs are continually being examined to deliver maximum benefits for the least cost. By sponsoring this Conference, the Mexican legislature has made it clear they not only accept the challenge but are willing to assume a leadership role.